

**TESTIMONY  
BY**

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**BEFORE THE UNITED STATES HOUSE OF REPRESENTATIVES  
FINANCIAL SERVICES SUBCOMMITTEE ON  
DOMESTIC AND INTERNATIONAL MONETARY POLICY,  
TRADE AND TECHNOLOGY**

**HEARING ON  
REMITTANCES: ACCESS, TRANSPARENCY, AND MARKET EFFICIENCY –  
A PROGRESS REPORT**

**MAY 17, 2007**

Good morning Mr. Chairman and members of the Committee. My name is Tom Haider, and I am the Vice President and Chief Compliance Officer for MoneyGram International. Thank you for providing me the opportunity today, on behalf of MoneyGram, to speak with the Committee about issues affecting remittances, including the regulation of money transmitters and the ongoing bank discontinuance problem for Money Services Businesses<sup>1</sup> (MSBs).

### Company Background

MoneyGram is an international payment services company doing business in more than 170 countries and territories, through more than 114,000 locations. The locations that sell MoneyGram's services, commonly referred to as "agents," include banks, credit unions, supermarkets, convenience stores, and other retail locations. In the U.S., MoneyGram is licensed and regulated as a money transmitter by the majority of states, most often through the state banking department. In addition, MoneyGram fully complies with the Bank Secrecy Act, the USA PATRIOT Act, and is registered with the Treasury Department as an MSB. MoneyGram is also a member of the Money Services Round Table, which is a coalition of the leading money transmitters in the U.S. and whose other members include: American Express Travel Services, Western Union, Comdata Network, Travelex Americas, Sigue Corporation, and Ria Financial Services.

### Remittances

Chairman Gutierrez, MoneyGram appreciates the leadership that you have brought to the issue of remittances, and we look forward to working with you, your staff and members of the Committee on ways to bring greater transparency to remittance transactions. MoneyGram strongly supports legislation that would establish a federal regulator to license and regulate the money transfer industry. MoneyGram believes a federal regulator would benefit consumers, law enforcement, the banking community, and the money transmitter industry. Today, there is widespread inconsistency in the regulation of the industry. This leads to unnecessary administrative costs for the industry, which leads to higher costs and inefficiencies for consumers. The banking community, which continues to retreat from providing services to

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<sup>1</sup> Money Services Businesses "MSBs" are defined in 31CFR103.11uu, and include money transmitters, money order issuers and sellers, check cashers, travelers check issuers and sellers, and stored value providers.

MSBs, is skeptical of the current regulatory regime and would gain greater confidence in the industry if it were subject to an effective federal regulator. Furthermore, law enforcement's battle against money laundering and terrorist financing would be enhanced through uniform regulation of the industry that would make it easier to detect illegal use of MSB services. MoneyGram believes an effective, federal regulator could be the best solution to these challenges.

MoneyGram, however, is opposed to simply adding a layer of federal regulation on top of existing state regulation since that would only increase compliance complexity and costs to the industry. Those additional costs would ultimately be passed along to consumers, defeating the long-term goal of reducing inefficiencies and costs for remittance consumers. As noted in the "General Principles for International Remittance Services," issued by the Committee on Payment and Settlement Systems and The World Bank in January 2007: "It is important that any regulation balances the benefits of increased safety and soundness against the potential costs in lost efficiency, competition and innovation. Complying with regulations can often be costly and therefore may drive up remittance prices. Regulations can also be a barrier to entry and thus restrict competition." (Principle 100.)

MoneyGram is proud to have been a leader in bringing lower, more simplified pricing to the remittance industry. MoneyGram has led the way in reducing fees and exchange rates for guest workers sending money home to Latin America and other regions. For example, at the time the current management took over MoneyGram in 1998, the average foreign exchange rate was nearly 7%; but today the global blended exchange rate is less than 2%, and less than 1% for many parts of Latin America. (The exchange rate represents the cost that a money transmitter incurs in converting a transaction from the currency of the sending country to the currency of the receiving country.) Likewise, during this same time period the average fee per transaction has dropped from nearly \$22 to less than \$10 for most transactions to Mexico and Latin America.

MoneyGram has also been a leader in the development of simplified pricing to the remittance industry. No longer do consumers struggle with complicated pricing charts that vary the transaction fee, in \$50 or \$100 increments, depending on how much money is to be sent.

Instead, using the MoneyGram service today, consumers can send up to \$1,000 to most countries for a flat fee of less than \$10, with a foreign exchange rate of less than 2%. These reduced fees and exchange rates reflect MoneyGram's commitment to provide consumers with an affordable, reliable and convenient payment service.

Of course, we recognize that in the opinion of some groups, almost any fee will be viewed as too high. But at least one respected, independent organization has noted that fees are just about as low as they can go. In its May 2007 report entitled "Making the Most of Family Remittances," the Inter-American Dialogue reported "For some destinations, MTO [money transfer operator] costs make it difficult to bring prices down much further. The average cost of managing a remittance collection point (which includes rental or purchase of space, salaries, and equipment) is about \$7 per transfer. In recipient countries, additional investments have to be made in delivery services, with expenses varying from place to place. For instance, a money transfer to Mexico costs about 5 percent of the amount sent, and this charge cannot be reduced much more – even with the adoption of innovative business models and new technologies."

In addition to lower fees and exchange rates, MoneyGram also provides consumers with a detailed receipt that indicates: the amount of money the "sending consumer" has paid; the exchange rate that will be applied to the transaction; all fees related to the transaction (and with MoneyGram the "recipient" is never charged a fee); and, most importantly to the consumer, the amount of local currency that their recipient will receive.

MoneyGram urges Congress to exercise caution before deciding to add more terms and conditions to consumer receipts. Too many requirements can be counter productive by cluttering the receipt with so much well-intentioned information that it actually camouflages the information that is most important to the consumer.

MoneyGram also maintains a toll free phone number that consumers can call if they have questions about a transaction, including rates and fees for any transaction they plan to make in the future. MoneyGram's customer care center is staffed 24 hours a day, seven days a week, by multi-lingual personnel. So with MoneyGram, you can speak to a "live" person when you have a

question, and you never pay a fee for that service. In addition, MoneyGram gives customers that send money within the Western Hemisphere a free calling card that they can use to notify their recipient that the transaction is on its way.

Another convenient feature of a MoneyGram transaction is that once the transaction is sent, the funds are available to be picked up by the recipient within minutes in the local currency. For example, the MoneyGram service is so quick that a sender could be in a MoneyGram location in Chicago and as soon as they pay for the transaction, they could call their recipient who is already in a MoneyGram location in Argentina, give them the transaction information, and the recipient could then go to the counter and collect their cash in Argentinean pesos.

Still another valuable aspect of the MoneyGram service is the extensive network of locations through which transactions can be sent and received, which includes thousands of bank branches in the U.S. and around the world. MoneyGram believes consumers are best served when banks and money transmitters work together to deliver remittance services. Unfortunately, we are seeing too many statements lately that portray bank-owned remittance programs as somehow better for consumers than those of traditional money transmitters. These statements are often linked to proposals that seek to provide assistance to bank-owned remittance programs, at the expense of traditional money transmitters.

MoneyGram agrees that it is important for consumers to be “banked” and that in the long-run it will help consumers improve their economic opportunities. But MoneyGram also believes traditional money transmitters can play a critical role in this transition. Un-banked consumers who are new to the U.S. generally are not quick to open a bank account, but rather tend to move towards a banking relationship over time after they have established themselves in a community. In the meantime, those individuals still need the services of a money transmitter, and if that money transmitter is a partner with a bank it will be far easier for the consumer to transition to becoming a banked customer.

Furthermore, those consumers who are banked still need the broad network of agent locations provided by traditional money transmitters. Throughout the U.S. and around the world,

MoneyGram's service is available in many ethnically owned and operated locations that serve consumers by remaining open long hours and on weekends, and are staffed by workers who can conduct transactions in the consumer's native language. This network of non-bank agents is equally important to consumers in the U.S. and the countries where the money is destined to be received.

An article in the Minneapolis Star Tribune on September 24, 2006, entitled "Wire for Growth," highlighted the value of the partnership between banks and money transmitters. The article quoted Trent Spurgeon, Vice President of Product and Segment Management at U.S. Bancorp on the issue of remittances. "If you look at the regulatory scrutiny since 9/11, while good-intentioned, it made it virtually impossible for banks to serve (money transfer customers) economically," Spurgeon said. "You have to have critical mass to keep up with it." The article said that for U.S. Bancorp, "It made more sense to partner with MoneyGram because of its well-known brand and large agent network."

#### Bank Account Concerns

One of the most pressing issues facing MSBs today is bank account discontinuance. The problem is one in which banks are either closing the accounts of existing MSB account holders or refusing to open new accounts. MoneyGram's CEO testified on this issue before the House Financial Services Subcommittee on Financial Institutions on June 21, 2006. Also testifying at that hearing were representatives of various federal regulatory agencies who promised to address the issue. Unfortunately, those agencies have yet to take any action on the issue and the problem has not gone away on its own. It is an issue that can only be resolved by the federal banking regulators who must remove the onus they have put on banks to conduct a due diligence analysis on the compliance programs of their MSB account holders. In essence, banks are being forced into the role of acting as the *de facto* regulator for MSBs.

In an attempt to solve this problem, MoneyGram has joined with other MSBs and various bank trade associations to draft legislation that would give banks the ability to rely on a certification by their MSB account holders that they are in compliance with the anti-money laundering requirements. We will soon be bringing this legislation to members of this

Committee for their support. Of course, we do not know whether the legislative proposal will be embraced by the federal bank regulators. However, we do know that we cannot continue to wait for action by the regulators as the issue will languish without Congressional involvement.

That is why it is important to develop a comprehensive solution to the bank discontinuance problem. Such a solution must combine two elements: first is elimination of the pressure that regulators have placed on banks to be the anti-money laundering compliance enforcer for their MSB account holders, and second is creation of a comprehensive federal regulator for money transmitters. This solution, as previously noted, is good for all parties. As several senior Treasury and law enforcement officials have noted, it would be a serious blow to anti-money laundering and terrorist financing prevention if the money transfer industry was driven underground due to the loss of banking services.

MoneyGram takes very seriously its anti-money laundering compliance duties. At MoneyGram, nearly 4% of our entire workforce is dedicated exclusively to compliance and fraud prevention. In addition, MoneyGram spends millions of dollars on technology and training to comply with the regulatory requirements and to assist its agents with meeting their compliance obligations. But MoneyGram and its agents can only continue to make these investments if there is unimpeded access to banking services and if regulatory mandates do not overwhelm their ability to operate in an efficient manner.

The impact of the regulatory burden on remittance fees was noted in the previously cited Inter-American Dialogue report, entitled “Making the Most of Family Remittances.” The report noted, “[t]he U.S. post-9/11 regulatory environment has added to the cost of sending remittances. Tighter regulations and compliance with new anti-money laundering legislation have raised MTO [money transfer operators] costs of doing business.” The report went on to say, “no one gains when legitimate businesses unnecessarily get caught up in enforcement actions. The regulators waste resources, the cost of doing business goes up, and – in the case of remittances – low-wage immigrant workers and low-income families pay a high cost.”

## Conclusion

I want to thank you, Mr. Chairman and members of the Committee, for the honor of having the opportunity to present testimony on behalf of MoneyGram International. We truly appreciate your continued interest in improving the remittance climate in the U.S. for consumers, banks and money transmitters. We look forward to working with you and your staff on advancing the issues discussed today. We at MoneyGram are proud of our company's strong efforts in the fight against money laundering and terrorist financing, and we remain dedicated to working with Congress, regulators and law enforcement officials to defeat the attempts by criminals to use any of our services for illegal purposes. Mr. Chairman, we hope that you will view us as a partner in this effort and will call upon us for whatever assistance we can provide. Thank you again.